

US Department of Agriculture, AMS

# Dairy Market News

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122 E Olin Ave Ste 290  
Madison, WI 53713-1487  
608-250-3200

## Change of Address, effective JANUARY 23, 2006

USDA, Dairy Market News is moving to:

**USDA, Dairy Market News  
122 E Olin Ave Ste 290  
Madison, WI 53713-1487**

### **New Phone Numbers**

Colleen Curran (608) 250-3203

Elizabeth Frederick (608) 250-3200

George Koerner (608) 250-3205

Donald O. Nelson (608) 250-3206

Steve Schneeberger (608) 250-3204

Butch Speth (608) 250-3202

Alan Wagner (608) 250-3207

General Number: (608) 250-3200

Fax Number: (608) 250-3216

Market News Information System Number: (608) 250-3208

**NATIONAL DAIRY MARKET AT A GLANCE**

**CHICAGO MERCANTILE EXCHANGE (CME) CASH MARKETS (01/13):**  
**BUTTER:** Grade AA closed at \$1.3300. The weekly average for Grade AA is \$1.3695 (-.0355).

**CHEESE:** Barrels closed at \$1.3275 and blocks at \$1.3675. The weekly average for barrels is \$1.3375 (-.0025) and blocks, \$1.3675 (N.C.).

**BUTTER:** The market tone is weak. The cash butter market traded each day this week. This week marks the beginning of daily trading on the cash butter market. This occurrence was marked by the fact that closing prices moved lower each day. This is indicative of the continued heavy supply of excess cream, increased supplies of butter, and the rather lackluster demand for both bulk and print/packaged butter. Churning activity remains heavy and Midwestern butter makers continue to receive cream from both the Western and Eastern parts of the country. Some cream suppliers were mildly surprised by how much excess cream they had to offer this week. More producers are packaging bulk butter after having built sufficient stocks of quarter and one-pound prints.

**CHEESE:** The cheese market is steady to weak. The cash block price at the Chicago Mercantile Exchange has held at \$1.3675 since December 28 and is about 20 cents lower than the comparable week a year ago. Current cheese interest is mostly for replacement needs and mainly slow to fair at best. Much of the product for projected Super Bowl events has been shipped with the balance to be shipped in the next week or so. Spot offerings have increased on most varieties. Many buyers are expecting milk and cheese supplies to be at least adequate into spring, reducing the need for larger cushion stocks like last year. Milk volumes used in cheese production are steady to higher though as some operators may be using less NDM and separating more cream; cheese output may not be as strong.

**FLUID MILK:** U.S. milk production is generally trending higher. Increased Class I usage is reducing surplus supply availability. Class I demand appears to be best in the Southeast where seasonal residents have returned for the winter. First of the month activity and increased demand from schools are also factors in improved bottling activity. As a result, movement of milk into Class II and III is reduced. Cheese manufacturers are also reducing their intakes of NDM, thereby limiting the use of cream in cheese manufacture. Fluid cream markets continue to trend weak. Cream supplies are heavy and most burdensome in the coastal areas of the U.S. As a result, increased movement of cream is noted into the Midwest. While some ice cream operations are able to pick up additional loads of cream, other Midwest buyers are turning down loads. Cream prices are lower in response to decreases in the CME AA butter price and reduced multiples. Condensed skim offerings are increasing and the market is reported as weak.

**DRY PRODUCTS:** Dry dairy product prices are mixed. Although NDM production continues to increase and discounting is noted in the trade, some prices are reported higher in response to the NASS pricing series

that ticked higher last week. The NASS price reported this morning is \$0.9841, \$0.0165 lower than last week. Buttermilk markets are weak and prices are lower. Heavy churn activity is encouraging stocks of buttermilk to build. Whey markets are firm. Buyers, without recourse, are paying prices that reflect increasing premiums and energy surcharges. Lactose prices are trending higher. Supplies are limited for the good interest. The WPC market is steady to weak. WPC demand is light and best into edible accounts.

**CCC:** During the week of January 9 - 13, there was no dairy price support activity.

**WORLD DAIRY SITUATION AND OUTLOOK (FAS):** Without increased dairy production in Oceania, international supplies of dairy products are likely to remain tight. Reduced demand may ease market conditions in the near term. Expected marginal increases in EU-25 milk production for 2006 are anticipated to satisfy internal needs of the region. Continued milk production increases in the U.S. are expected to ensure ample exportable supplies of NDM in 2006. Expectations that the U.S. dollar will continue to strengthen against the Euro in 2006 may undermine the competitiveness of the U.S. dairy industry in international markets. High crude oil prices may also challenge U.S. movement of dairy products, especially into countries importing petroleum. Petroleum exporters such as Mexico, Algeria, Russia and Middle-Eastern nations, will benefit from high oil prices, encouraging dairy product movement to these regions. Import demand of dry dairy products from China and Japan is expected to decrease. Whether expected decreased demand in Asia will be offset by demand elsewhere is uncertain.

**JANUARY MILK SUPPLY AND DEMAND ESTIMATES (USDA, WAOB):** Milk supply and use forecasts for 2005 and 2006 are little changed from last month. Whey and butter price forecasts are changed fractionally from last month, but the Class III and Class IV milk price forecasts are unchanged. The all milk price forecast for 2006 is raised slightly to \$13.40-\$14.20.

**ANNOUNCED COOPERATIVE CLASS I PRICES 2005 ANNUAL AVERAGES (DAIRY PROGRAMS):** For 2005, the all-city average announced cooperative Class I price was \$18.51, \$1.58 higher than the Federal milk order Class I price average for these cities. Although the all-city average Federal Order Class I price and the Announced Cooperative Class I prices were both lower than the 2004 average prices, the difference between the two set a new record at \$1.58. On an individual city basis, the annual average difference between the Federal order and announced cooperative Class I price ranged from \$.15 in Phoenix, AZ to \$2.80 in Miami, FL. For 2004, the all-city average announced cooperative Class I price was \$19.01, \$1.50 higher than the Federal order Class I price average for these cities.

\*\*\*\*SPECIALS THIS ISSUE\*\*\*\*

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**CHICAGO MERCANTILE EXCHANGE  
CASH TRADING**

PRODUCT	MONDAY JANUARY 9	TUESDAY JANUARY 10	WEDNESDAY JANUARY 11	THURSDAY JANUARY 12	FRIDAY JANUARY 13	WEEKLY CHANGE*	WEEKLY AVERAGE#
CHEESE BARRELS	\$1.3400 (N.C.)	\$1.3400 (N.C.)	\$1.3400 (N.C.)	\$1.3400 (N.C.)	\$1.3275 (-.0125)	(-.0125)	\$1.3375 (-.0025)
40# BLOCKS	\$1.3675 (N.C.)	\$1.3675 (N.C.)	\$1.3675 (N.C.)	\$1.3675 (N.C.)	\$1.3675 (N.C.)	(N.C.)	\$1.3675 (N.C.)
BUTTER GRADE AA	\$1.3950 (-.0050)	\$1.3775 (-.0175)	\$1.3750 (-.0025)	\$1.3700 (-.0050)	\$1.3300 (-.0400)	(-.0700)	\$1.3695 (-.0355)

CHEESE: carload = 40,000-44,000 lbs., BUTTER: carlot = 40,000-43,000 lbs. \*Sum of daily changes. # Weekly averages are simple averages of the daily closing prices for the calendar week. Computed by Dairy Market News for informational purposes. This data is available on the Internet at WWW.AMS.USDA.GOV/MARKETNEWS.HTM NOTE: CME NDM on Page 2 and the CME will be closed 1/16/06.

## CHICAGO MERCANTILE EXCHANGE

MONDAY, JANUARY 9, 2006

CHEESE — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: NONE

NONFAT DRY MILK — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: NONE

BUTTER — SALES: NONE; BIDS UNFILLED: 4 CARS: 2 @ \$1.3850, 2 @ \$1.3800; OFFERS UNCOVERED: 6 CARS: 1 @ \$1.3950, 2 @ \$1.4000, 1 @ \$1.4075, 2 @ \$1.4150

TUESDAY, JANUARY 10, 2006

CHEESE — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: NONE

NONFAT DRY MILK — SALES: NONE; BIDS UNFILLED: 2 CARS GRADE A @ \$0.9500; OFFERS UNCOVERED: 1 CAR GRADE A @ \$0.9850

BUTTER — SALES: 10 CARS: 1 @ \$1.3900, 4 @ \$1.3800, 1 @ \$1.3700, 1 @ \$1.3775, 1 @ \$1.3750, 2 @ \$1.3775; BIDS UNFILLED: 1 CAR @ \$1.3700; OFFERS UNCOVERED: 10 CARS: 2 @ \$1.3775, 1 @ \$1.3850, 1 @ \$1.3900, 4 @ \$1.3950, 2 @ \$1.4200

WEDNESDAY, JANUARY 11, 2006

CHEESE — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: NONE

NONFAT DRY MILK — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 2 CARS GRADE A @ \$0.9800

BUTTER — SALES: NONE; BIDS UNFILLED: 2 CARS @ \$1.3700; OFFERS UNCOVERED: 1 CAR @ \$1.3750

THURSDAY, JANUARY 12, 2006

CHEESE — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: NONE

NONFAT DRY MILK — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 2 CARS GRADE A @ \$0.9800

BUTTER — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 6 CARS: 3 @ \$1.3700, 1 @ \$1.3750, 2 @ \$1.3900

FRIDAY, JANUARY 13, 2006

CHEESE — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 1 CAR BARRELS @ \$1.3275

NONFAT DRY MILK — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 2 CARS GRADE A @ \$0.9700

BUTTER — SALES: 3 CARS: 1 @ \$1.3675, 1 @ \$1.3500, 1 @ \$1.3300; BIDS UNFILLED: 1 CAR @ \$1.3300; OFFERS UNCOVERED: 6 CARS: 1 @ \$1.3425, 2 @ \$1.3475, 3 @ \$1.3700

**CME CASH NONFAT DRY MILK:** Extra Grade closed the week at \$0.9800 and Grade A at \$0.9700. (The last price change for Extra Grade occurred December 14 and the last price change for Grade A occurred January 13.) The weekly average for Extra Grade is \$0.9800 (N.C.) and Grade A is \$0.9820 (-.0130).

## BUTTER MARKETS

## NOVEMBER BUTTER PRODUCTION

During November 2005, butter production in the United States totaled 110.1 million pounds, 8.6% more than November 2004 and 2.7% more than October 2005. The following are November to November changes for various states: CA +7.8, NY +6.0%, PA +30.6%, and WI +14.8%.

## NORTHEAST

The butter market is weak. The CME cash butter price has eased from the \$1.4100 level reached last Wednesday. Many producers and handlers were surprised at the increase, but one contact feels that some butter producers pushed prices higher as many contract to sell print butter based on the CME weekly average. With only two trading days last week, that midweek price increase had more of an effect on the weekly average. Also, the heavy production and low-cost butterfat during the holidays maximized the difference between production and last week's selling price. The CME has, beginning this week, moved cash butter trading to a daily schedule. This will mollify the impact on weekly averages noted above. Cream supplies remain plentiful, but churning activity is easing from its heavy levels during the holidays and early last week. Buying interest is spotty. Some buyers are returning to the market following the holidays, while others are still holding off placing new orders. Demand for bulk remains slow. Sales of bulk butter f.o.b. East, are reported in a range from flat market to 3.0 cents over the CME price/average.

## CENTRAL

At midweek, the cash butter price of \$1.3750 is edging lower from last week's high of \$1.4100. Producers and handlers remain puzzled at the strength of the cash price last week and now state that the price is trending in the direction that is more

typical for this time of the season. Churning activity remains heavy as Midwestern butter makers continue to receive heavy volumes of Eastern and Western cream. Stocks of butter are increasing as production outpaces demand. Some producers indicate that sales are picking up, while others state that sales remain light. Most butter producers and traders feel that sales activity will be limited to short term or immediate needs. Reportedly, unless buyers immediately need stocks, many will be delaying their orders until the current weakening trend stabilizes. Bulk butter for spot sale is being reported in the flat – 2 cents per pound over various pricing basis.

## WEST

Since increasing to \$1.41 last week at the cash CME market, prices have been declining. They now stand at \$1.3750 at mid-week. Western contacts were surprised at the strength noted last week and feel that prices should be moving lower at this time of year with the amount of cream and butter available. Offerings of cream are heavy and above expectations. Therefore, churning is also heavier than anticipated for early January. More operations are making bulk and putting it in the freezer as the best alternative to selling on the market or trying to move cream at this time. U.S. butter production in November, according to the NASS *Dairy Products* report, totals 110.1 million pounds, up 8.6% or 8.8 million pounds from last year. Cumulative output for the first eleven months of the year totals 1.21 billion pounds, up 7.0% or 79.3 million pounds. This works out to an average weekly increase in production this year compared to last year of 1.65 million pounds. Butter production in the Western region in November totals 51.8 million pounds, up 13.9% from last year. The West produced 47% of U.S. butter output in November. CME weekly butter stocks grew by 1.65 million pounds last week to stand at 32.1 million pounds. Stocks are ahead of last year at the same time, but are substantially below both 2004 and 2003. Prices for bulk butter range from 2 cents under to 4 1/2 cents under based on the CME with various time frames and averages.

## NASS DAIRY PRODUCT PRICES

## U.S. AVERAGES AND TOTAL POUNDS

WEEK ENDING	CHEESE		NDM	BUTTER	DRY WHEY
	40# BLOCKS	38% MOISTURE BARRELS			
JANUARY 7	1.3908	1.3759	0.9841	1.3339	0.3342
	6,759,460	8,758,834	14,223,906	3,130,381	9,275,341

Further data and revisions may be found on the internet at: <http://jan.mannlib.cornell.edu/reports/nassr/price/dairy>

## CHEESE MARKETS

## NORTHEAST

Prices and the market tone are steady. Surplus milk volumes in the Northeast are getting back to more typical levels. Most producers are still a little hesitant to make too much cheese with Class III milk prices and cheese prices at their current levels. Demand for cheese is rebounding as retailers get back in to the market after assessing their post-holiday inventories. Food service orders are holding up quite well. During November, cheddar cheese output in the Atlantic region totaled 10.46 million pounds, 3.9% more than November 2004 and 3.1% more than October 2005. November's Mozzarella production in the region totaled 37.7 million pounds, 2.5% less than a year ago, but 7.0% more than October.

WHOLESALE SELLING PRICES: DELIVERED,  
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Cheddar 10# Prints	:	1.4500-1.9700
Cheddar Single Daisies	:	1.4075-1.8825
Cheddar 40# Block	:	1.5075-1.7800
Process 5# Loaf	:	1.5500-1.7925
Process 5# Sliced	:	1.5700-1.8000
Muenster	:	1.5225-1.7225
Grade A Swiss Cuts 10 - 14#	:	2.4500-2.6500

## MIDWEST

The cheese market is steady. Current buyer perspective generally is that milk and cheese supplies, at least into spring, should be at least adequate so the need to have large cushion stocks like last year doesn't exist. Buyers are taking a more "just in time" approach with orders though finding trucking when needed remains a major problem. Bulk cheese offerings are higher and cover most varieties. Most buyers are just buying on an "as needed" basis though a few operations are seeing larger restocking orders than others. Consumer/food service orders for Super Bowl events are shipped to larger buyers with smaller buyers and stragglers needed to be in route in a week or so. Natural orders generally remain better than process, overall fair at best. Current price levels are low enough for some buyers to comfortably rebuild aging programs, at least on some varieties. Cheese production remains heavy seasonally with yields remaining strong for early in the year. Plant milk intakes, depending on patron movement, are steady to increasing seasonally.

WISCONSIN WHOLESALE SELLING PRICES: DELIVERED,  
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Process American 5# Loaf	:	1.5900-1.8400
Brick And/Or Muenster 5#	:	1.8400-1.9150
Cheddar 40# Block	:	1.7175-2.2650
Monterey Jack 10#	:	1.8800-2.2650
Blue 5#	:	2.2175-2.5300
Mozzarella 5 - 6# (Low Moisture, Part Skim)	:	1.5450-2.3650
Grade A Swiss Cuts 6 - 9#	:	2.4300-2.8900

WEEKLY COLD STORAGE HOLDINGS-SELECTED STORAGE CENTERS  
IN THOUSAND POUNDS - INCLUDING GOVERNMENT STOCKS

	BUTTER	:	CHEESE
01/09/06	17,773	:	125,915
01/01/06	11,601	:	125,224
CHANGE	6,172	:	691
% CHANGE	53	:	1

## WEST

Block cheese prices at the cash CME market have held at \$1.3675 for ten trading sessions with little activity noted. This fits the pattern that contacts are seeing out in the market. Things have gone very quiet with buyers only ordering to replace stocks that have sold. They do not believe that there is much chance of price strength in the near term with the amount of milk production in the region. They are noting quite a bit of under grade cheese coming on the market with December make dates. The volume is fairly heavy, but the cheese is clearing quite well. Sales of current, top quality cheese are steady to slow. Total cheese production for the U.S. for November stands at 761.5 million pounds, up less than 1% from last year. Some analysts are surprised that there is not more production with milk up more than 4% since late spring. Cumulative total cheese output for the first eleven months of the year is 8.32 billion pounds, up 2.7% from last year or 217.3 million pounds. This works out to a weekly average increase of 4.5 million pounds when compared to last year. November output for the Western region is up 2.1% from last year, ahead of the U.S. increase. The West produced 42% of the total cheese production in November. Swiss production for the U.S. in November was up 10.5% to stand at 24.9 million pounds.

WHOLESALE SELLING PRICES: DELIVERED, DOLLARS PER POUND  
(1000 - 5000 POUNDS MIXED LOTS)

Process 5# Loaf	:	1.4925-1.7500
Cheddar 40# Block	:	1.4875-1.7875
Cheddar 10# Cuts	:	1.6675-1.8875
Monterey Jack 10#	:	1.6775-1.8375
Grade A Swiss Cuts 6 - 9#	:	2.2500-2.7000

## FOREIGN

Prices and the market tone are little changed from last week. Importers are gearing up for early-year arrivals and the firmer dollar is helping. Stocks of most cheeses are adequate for the fair to still good demand.

WHOLESALE SELLING PRICES: FOB DISTRIBUTORS DOCK  
DOLLARS PER POUND (1000 - 5000 POUNDS, MIXED LOTS)

VARIETY	NEW YORK	
	IMPORTED	DOMESTIC
	:	:
Roquefort	: TFEWR	: -0-
Blue	: 2.6400-4.6300	: 1.7625-3.2525
Gorgonzola	: 3.6900-5.9400	: 2.2725-2.4900
Parmesan (Italy)	: TFEWR	: 3.1775-3.2825
Romano (Italy)	: 2.1000-3.1900	: -0-
Provolone (Italy)	: 3.4400-6.0900	: 1.7625-2.0000
Romano (Cows Milk)	: -0-	: 2.9600-5.1025
Sardo Romano (Argentina)	: 2.8500-3.2900	: -0-
Reggianito (Argentina)	: 2.6900-3.2900	: -0-
Jarlsberg-(Brand)	: 3.1200-4.1500	: -0-
Swiss Cuts Switzerland	: -0-	: 2.4500-2.6500
Swiss Cuts Finnish	: 2.5900-2.8500	: -0-
Swiss Cuts Austrian	: TFEWR	: -0-
Edam	:	:
2 Pound	: TFEWR	: -0-
4 Pound	: 2.1900-3.5600	: -0-
Gouda, Large	: TFEWR	: -0-
Gouda, Baby (\$/Dozen)	:	:
10 Ounce	: 27.8000-31.7000	: -0-

\* = Price change.



## FLUID MILK AND CREAM

## E A S T

Spot shipments of Grade A milk into or out of Florida and other Southeastern states

	THIS WEEK		LAST WEEK		LAST YEAR	
	IN	OUT	IN	OUT	IN	OUT
FLORIDA	88	0	0	20	0	51
SOUTHEAST STATES	0	0	0	0	0	0

Milk production is showing more signs of increasing in the Southeast, while mostly steady in the Middle Atlantic and Northeast regions. Fluid milk supplies are ample, but in better balance than last week. Contacts in the Southeast comment that bottlers are adding to their contracted volumes as Class I needs rebound from the holiday period and retailers are initiating some feature programs this week or next. This year, it seemed that the Class I milk demand took an extra week before rebounding. Many feel that schools did not uniformly reconvene and were "strung out" between January 2 and January 9, which stretched out orders. Florida handlers had to import milk this week as demand has increased significantly. Retail features plus the typical January influx of winter residents are cited for this turn around in milk needs. Surplus milk volumes were generally lighter this week, but appeared to be the tightest in the Southeast. Some plant contacts comment that this week's receipts were about half what they were last week. This does provide plants some down time to work on equipment that was operated at near capacity for the past three weeks. The condensed skim market is weaker as offering increase. Early in the week, some dryers continued to offer discounted loads to ease the pressure on their dryers. Class II and III need are generally filled with contracted volumes. The fluid cream market remains weak. Local supplies are more than ample for the slow to fair, but improving Class II demand. Spot prices are generally higher as the CME average butter price increased 6.5 cents last week and steady to higher multiples. With the CME moving to daily trading on the cash butter market, contacts feel that the volatility occasionally seen with the three-times-a-week trading will be "smoothed out." Multiples are still quite low, but typical for this time of year and the volumes of cream that are available. Class II cream demand is slowly returning to pre-holiday levels as ice cream plants get back on line. At some ice cream plants, the next week's orders for cream and condensed skim are significantly higher than they have been since mid-December. Spot demand from cream cheese makers is spotty and ranges from light to moderate. Production of dips, sour cream and bottled cream are lighter, but still termed as moderate in many areas. Churning activity is heavy and some producers are still trying to catch up with supplies. Some Eastern buyers are turning away offerings and some loads continue to clear to the Midwest.

## FLUID CREAM AND CONDENSED SKIM PRICES IN TANKLOT QUANTITIES

SPOT PRICES OF CLASS II CREAM, \$ PER LB BUTTERFAT

F.O.B. PRODUCING PLANTS: NORTHEAST	-	1.6017-1.8266
DELIVERED EQUIVALENT ATLANTA	-	1.6298-1.8546 M 1.6860-1.7703
F.O.B. PRODUCING PLANTS: UPPER MIDWEST	-	1.6158-1.7844

PRICES OF CONDENSED SKIM, \$ PER LB SOLIDS

F.O.B. PRODUCING PLANTS:	
NORTHEAST- CLASS II - INCLUDES MONTHLY FORMULA PRICES	- 1.0200-1.0900
NORTHEAST- CLASS III - SPOT PRICES	- 1.0500-1.1200

## M I D W E S T

Class I demand is steady to improved, at levels found before the holiday season rush (very early November). Some bottlers were trying to add a few extra late week loads. Others are reporting that larger volumes from direct farm shipments are sufficient to cover their increased needs for the bottle. Some spot loads of Michigan fluid were shipped into the Southeast this week to supplement local supplies. Class II interest is fair at best. Manufacturing milk interest is fairly quiet. Cheese offerings are at least adequate. Trade reports indicate that some cheese plant operators have cut back on NDM use, resulting in some additional cream supplies being marketed rather than used in cheese vats. Reported spot manufacturing milk prices range from around \$1.25 - 1.50 net over class. Cream supplies remain burdensome and prices remain weak. At least one churn is full and is turning down additional offerings. Some ice cream operations are picking up though others remain sluggish. Milk intakes are generally increasing seasonally. Fat and protein levels remain seasonally strong. Unseasonably warm temperatures and the lack of snow cover through much of the upper tier of states has allowed golfers the opportunity to play a round and save on heating bills. However, the

weather has also caused alfalfa to come out of dormancy early, potentially leading to increased winterkill if too much energy is removed by the early green up using energy stored in the root. A few fields are still being tilled in the past week in Wisconsin. Dry conditions persist in the southern parts of the region.

## WISCONSIN LIVESTOCK AUCTIONS (PER CWT.)

	JAN 5 - 11	PREVIOUS YEAR
SLAUGHTER COWS	\$ 46.00- 51.50	\$ 49.00- 54.00
REPLACEMENT HEIFER CALVES	\$450.00-835.00	\$300.00-525.00

## SOUTH ST. PAUL TERMINAL AUCTION MARKET (PER CWT.)

	JAN 5 - 11	PREVIOUS YEAR
SLAUGHTER COWS	\$ 42.00- 53.00	\$ 47.50- 57.50

## W E S T

The February 2006 Class 1 prices in CALIFORNIA range from \$14.47 in the north to \$14.74 in the south. The statewide average Class 1 price based on production is \$14.52. The average is 2 cents lower than January 2006 and \$0.75 less than February 2005. Milk production is increasing in most areas of CALIFORNIA with limited affects resulting from recent and current wet conditions. The rains may have moderated growth, but milk output continues to increase. Processing plants in the state are running on active schedules to process available milk supplies. Runs have eased after the holidays. Fluid milk demand has been reestablished as more schools return to session. Retail orders are fair at best with more emphasis on lower fat milk. Plants in the north are having better times after rains and flooding conditions eased. Processing was disrupted at several locations but has returned to normal this week. Central Valley milk is increasing seasonally at a brisk pace above a year ago. Milk is being handled currently with processors cautious about the peak times ahead. Growth in herd size and increased milk per cow are main factors in the additional milk. Milk supplies in the South continue to move lower. Several herds were dispersed under the latest CWT program and dairies continue to be sold for development. The impact of less milk in the region is causing milk to be shipped in from other areas to meet needs. ARIZONA milk output has been mixed in recent weeks. Intakes have gone higher, retreated slightly, and rebuilt. The cycle cause is not entirely clear. Record high temperatures around 80 degrees may have more of an impact than thought. Generally, milk intakes are slightly higher than last year. Fat and protein contents are improving. Fluid milk needs have steadied. Cream supplies are long and are both being sold and churned. NEW MEXICO milk production is moving higher along seasonal patterns. Weather conditions have been very good and are allowing cow comfort. Feed is available for dairies, although hay supplies are tighter and prices likely to be higher than expected. Milk is being handled through normal channels and processing plants are running fuller to handle additional milk. CREAM offerings remain in excess. Butter churning is active within the region and out of region with Western cream. Offering prices of cream are being lowered to keep and generate interest. There are also distressed loads trading at lower end of the range. The CME butter price declined 3.5 cents to close at \$1.3750 at midweek. Cream multiples range from 92 to 119, FOB, and vary depending on class usage and basing point. Wet conditions persist over the PACIFIC NORTHWEST. It is possible that records will be set for the number of consecutive days of rain in the region. Herd health concerns are building as the length of time that there is stress builds. Feed lots remain muddy and even free stall barns are beginning to experience more problems. Conditions are quite windy so that rain is blowing into the facilities and the cows continue to bring in additional moisture. There has been no drying for three weeks. Some scattered flooding has caused some transportation issues as well. Some mountain passes have been closed periodically for snow removal and some routes are down to one lane at times. These conditions have added additional costs to the movement of milk and finished products. Quality hay supplies are diminishing and prices continue to increase in the region. The monthly heifer sale in the region found good demand for any offerings with prices firm. The average for springing heifers was \$21-2300 with a few as high as \$2350. Northern UTAH and southern IDAHO also continue to experience wet conditions and temperatures that are above normal. It may not be quite as muddy because of colder night time temperatures, but problems still persist. Tests remain good, but more mastitis cases are noted. More calls are noted looking for dairy hay within the region and from outside buyers. Very little, if any, appears to be available. Heifer prices at two sales during the first week of January indicated that demand is still strong. The top of the market was \$22-2400 with the averages at \$1890-2160. Volumes available to manufacturing plants have backed off from the holiday levels, but they are still heavy for early January.

**NDM, BUTTERMILK & WHOLE MILK**

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

**NONFAT DRY MILK - CENTRAL AND EAST**

**CENTRAL:** Prices are mixed on a steady to weak market. The NASS NDM pricing series reported last week reflected higher prices. As a result, producers using the pricing series as a basis increased their prices. However, in light of recent price declines and heavier production during the holidays and currently, some trades of NDM are noted at steady to lower prices. Supplies of NDM are most readily available at custom dryer operations in the Central region and via brokers that source supplies from the West. Some traders that received contract loads at the end of 2005 are having difficulty in clearing supplies competitively into export markets as domestic producer offers are noted lower than their contractual price. High heat NDM supplies are tight and short of buyer interest. **EAST:** Prices are steady to higher as the NASS average (the basis for most NDM sales), increased rather sharply last week. However, the market is rife with anecdotal reports of powder being offered and sold at lower than anticipated prices. There are an increasing number of contacts speculating that, sometime this quarter, CCC will be offered NDM to ease the growing, commercial stocks. Eastern drying levels are easing after the holidays, but still heavy. Most dryers have been operating at or near capacity since before Christmas and few plants got any down time until this week. Any down days/shifts were welcomed as a time to perform any maintenance that might be needed. Producer stocks are growing, but spot demand is fair to good, depending on price. Some buyers took advantage of the lower prices last week and did little buying this week.

**DAIRY PRODUCTS:** NASS production of human food, nonfat dry milk during November 2005 totaled 89.2 million pounds, up 6.4% from November 2004 and 21.0% above October 2005. Month ending stocks, at 89.7 million pounds, are 5.4% below a year ago but 1.2% above last month. [Note: NASS NDM totals do not account for SMP production and stocks]

F.O.B. CENTRAL/EAST: Includes EXTRA GRADE and GRADE A  
LOW/MEDIUMHEAT: .9900 - 1.0725 MOSTLY: .9900 - 1.0625  
HIGHHEAT: 1.0575 - 1.1350

**NONFAT DRY MILK - WEST**

Price fluctuations in pricing indexes continue to impact the Western NDM market prices. After sharply declining last week, prices were sharply higher this week and recovered most of the ground lost. The California NDM index for this week is about 2.5 cents lower. So the fluctuations will continue next week. The resumption of export shipments at lower prices is the major cause of lower prices. Additionally, there are domestic prices being discounted. The current market tone is unsettled. Stocks have built over the past several months because of higher production and declining demand. There are differing views on the direction of the market in coming months. Exports slowed at year end and have not resumed in earnest or to expected levels. Demand from cheese accounts is steady for contracted volumes but additional loads are slow to move to cheese makers because of the available milk supplies across the country. The decline in natural gas prices is welcomed by producers, but costs remain above most budgets. Trucking costs remain high with fuel surcharges steady but present. Prices for high heat powder are higher and reflect the same index effects as low heat NDM. Production is still active and able to meet current contract and spot demand. U.S. NDM production in November totaled 89.2 million pounds, 6.4% higher than last year and 21.0% more than last month. Cumulative production for 2005 is 1.088 billion pounds, 17.1% (224.6 million pounds) less than 2004. November production in the Western region totaled 66.8 million pounds, down 6.9% from last year. The West produced 75% of the U.S. total in November. California produced 51.0 million pounds, down 4.4% from November 2004. U.S. manufacturers' stocks at the end of November were reported at 89.7 million pounds, 5.4% less than last year but 1.2% higher than last month. [Note: NDM statistics may not include skim milk powder (SMP).]

F.O.B. WEST: Includes EXTRA GRADE and GRADE A  
LOW/MEDIUMHEAT: .9100 - 1.0250 MOSTLY: .9400 - 1.0175  
HIGHHEAT: 1.0000 - 1.0575

**CALIFORNIA MANUFACTURING PLANTS - NDM**  
-see adjacent column-

**DRY BUTTERMILK - CENTRAL**

Prices are unchanged to lower on a weak market. Offerings are noted at most locations for the very light interest. Producers find little incentive in lowering their prices as lower prices are not increasing buyer interest. Offerings of buttermilk from Western producers are competitive with Central region producers. Supplies of buttermilk continue to increase in response to strong churn activity. NASS production of dry buttermilk during November 2005 totaled 4.4 million pounds, 19.6% more than November 2004 and 2.7% above October 2005. Month ending stocks, at 10.7 million pounds, are 40.8% above a year ago and 14.3% higher than October 2005.

F.O.B. CENTRAL: .8600 - .9100

**DRY BUTTERMILK - NORTHEAST AND SOUTHEAST**

Prices are generally lower and the Northeast prices are nominal. The market tone remains weak. Production levels are still quite heavy as Eastern butter makers report ample volumes of surplus cream and daily churning activity. Producer stocks are growing at most plants. However, contract and spot sales are clearing a good portion of the current output. Most sales are to contract accounts. Dry buttermilk production during November 2005 totaled 4.4 million pounds, up 19.6% from last November and 2.7% more than October 2005. Month ending stocks, at 10.7 million pounds, are up 40.8% from a year ago and 14.3% more than a month ago.

F.O.B. NORTHEAST: .9300 - .9600  
DELVD SOUTHEAST: .9000 - .9700

**DRY BUTTERMILK - WEST**

Dry buttermilk prices continue to trend lower and come under pressure. The market tone is weaker. Demand is fair for current offerings, but is not enough to clear the market of past production. Buyers have made purchases in the mid 80's, but remain cautious of buying too far ahead of needs. Drying schedules remain heavy with most churners in the region flush with cream. Current stocks remain heavy. U.S. dry buttermilk production in November totaled 4.4 million pounds, up 19.6% from last year and 2.7% more than October. Stocks at the end of November were 10.7 million pounds, 40.8% more than last year and 14.3% higher than last month.

F.O.B. WEST: .8400 - .9325 MOSTLY: .8500 - .9000

**DRY WHOLE MILK - NATIONAL**

Prices are unchanged to higher and remain nominal. Production levels are picking up slightly as more dryers were catching up with skim volumes and had some dryer-time available. Direct spot sales remain light and plant inventories are well balanced. Dry whole milk production during November 2005 totaled 2.0 million pounds, down 52.3% from November 2004 and 11.9% less than October 2005.

F.O.B. PRODUCING PLANT: 1.3200 - 1.3800

**CALIFORNIA MANUFACTURING PLANTS - NDM**

WEEK ENDING	PRICE	TOTAL SALES	SALES TO CCC
January 6	\$.9699	7,756,873	0
December 30	\$.9954	5,172,823	0

Prices are weighted averages for Extra Grade and Grade A Nonfat Dry Milk, f.o.b. California manufacturing plants. Prices for both periods were influenced by effects of long-term contract sales. Total sales (pounds) include sales to CCC. Compiled by Dairy Marketing Branch, California Department of Food and Agriculture.

**WHEY, CASEIN & EVAPORATED MILK**

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

**DRY WHEY - CENTRAL**

Prices are higher on a firm market. Most trade is contractual with limited spot trade reported. Producers continue to encourage higher prices, including product premiums and energy surcharges that result in resale trade above the reported range. Production is mostly steady. Reports of extra condensed whey available in the trade are noted. Feed grade supplies are limited for the very good interest. Dry whey permeate supplies are in some instances available as a substitute to whey on domestic and export markets. NASS production of HUMAN FOOD, dry whey during November 2005 totaled 81.1 million pounds, 5.0% more than November 2004 and 7.0% above October 2005. Month ending stocks, at 33.8 million pounds, are 6.2% below a year ago but 2.6% more than October 2005. NASS production of ANIMAL FEED, dry whey during November 2005 totaled 5.1 million pounds, 19.6% less than November 2004 and 19.3% below October 2005. Month ending stocks, at 3.8 million pounds, are 20.8% lower than a year ago and 4.5% less than October 2005.

F.O.B. CENTRAL: .3375 - .3575 MOSTLY: .3375 - .3475  
F.O.B. CENTRAL: ANIMAL FEED MILK REPLACER: .3000 - .3375

**DRY WHEY - NORTHEAST AND SOUTHEAST**

Prices are mostly higher and remain nominal in the Northeast. The market tone is steady and typical for early January. Demand is fair as buyers/users re-enter the market after a slow purchasing period during the past few weeks of 2005. Traders comment that offerings are increasing from some producers while still tight at others. The extra loads that are offered do clear satisfactorily. However, buyers are expressing more concern over the energy surcharges and how they tend to make prices spiral. They feel that prices, because of the surcharges, will continually increase with little opportunity to decline. Cheese and dry whey production in the East was heavy over the past three weeks, but is starting to ease now that surplus milk supplies are declining. Most spot needs continue to be filled in the resale side of the market. Production of human food, dry whey during November totaled 81.1 million pounds, 5.0% more than November 2004 and 7.0% more than October 2005. Month ending stocks, at 33.8 million pounds, are 6.2% below last year but 2.6% more than a month ago. Production of animal feed, dry whey during November totaled 5.1 million pounds, 19.6% less than a year ago and 19.3% below October 2005.

F.O.B. NORTHEAST: EXTRA GRADE AND GRADE A: .3475 - .3550  
DELVD SOUTHEAST: .3650 - .3925

**DRY WHEY - WEST**

Prices continue to increase for Western whey powder. Both domestic and export sales are clearing good volumes of powder. A few contacts report some additional price resistance, but stocks are not building. There continues to be a general lack of competition from other sources in the world on the whey market. November U.S. production of edible whey totals 81.1 million pounds, up 5.0% from last year. Stocks at the end of November total 33.8 million pounds, down 6.2% from last year. Production in the Western region for November totals 26.7 million pounds, up 15.7% from last year. The Western region produced 33% of U.S. output in November. Total whey output for the first eleven months of the year totals 960.4 million pounds, up 1.4% (13.0 million pounds) from last year.

NONHYGROSCOPIC: .3300 - .3725 MOSTLY: .3425 - .3525

**WHEY PROTEIN CONCENTRATE - CENTRAL AND WEST**

Prices are unchanged to lower on a steady to weak market. Supplies remain mixed with stocks reportedly balanced in the West and readily available in the Central. Edible demand is fairly good, especially for Grade A supplies. Feed interest is light and variable with some buyers seeking a mix of WPC 80% and dry whey permeate to displace the respective costs of WPC 34% and dry whey. CCC award announcements on 4,031,143 pounds of NDM for restricted use will be released later today. NASS production of HUMAN AND ANIMAL WPC (25.0-49.9% PROTEIN) during November 2005 totaled 23.4 million pounds, 3.9% higher than November 2004 and 2.4% above October 2005. Manufacturers' end-of-month stocks totaled 17.0 million pounds, 14.1% lower than a year ago but 3.3% above last month. NASS production of HUMAN AND ANIMAL WPC (50.0-89.9% PROTEIN) during November 2005 totaled 8.5 million pounds, up 20.3% from November 2004 but 5.1% below October 2005. Manufacturers' end-of-month stocks totaled 10.0 million pounds, 3.8% above last year and 4.9% higher than last month.

F.O.B. EXTRA GRADE 34% PROTEIN: .7700 - .8350 MOSTLY: .7950 - .8050

**LACTOSE - CENTRAL AND WEST**

Prices are higher on a firm market. Most trade is contractual with very limited supplies available for spot trade. Trade of lactose on the spot market, irrespective of mesh size, is generally at a premium. Increased intakes of condensed whey at some operations are encouraging production of either dry whey permeate or lactose. Producers are anticipating short supplies of lactose throughout the first quarter. NASS lactose production during November 2005 totaled 56.7 million pounds, up 2.4% from November 2004 and 11.8% higher than October 2005. Month ending stocks, at 51.3 million pounds, are 28.5% lower than a year ago but 1.5% above last month.

Including spot sales and up to 3 month contracts. Mesh size 30 - 100.  
F.O.B. EDIBLE: .2200 - .2650 MOSTLY: .2300 - .2400

**CASEIN - NATIONAL**

Prices for both casein types are unchanged after levels fell last week to reflect lower first quarter contract prices. The high pricing levels have caused some buyers to switch protein sources. Demand in the U.S. is mainly steady to lower. Acid casein supplies are light to moderate and more available than in recent months. Rennet casein supplies are in tighter supply and in balance with current demand. On January 11, the CCC announced the sale of 1,000,000 pounds of NDM for the manufacture of casein/caseinate at the price of \$0.6500 per pound. The contracts were awarded under invitation 046 to Announcement RSCS1.

SPOT SALES AND UP TO 3 MONTH CONTRACTS. PRICES ARE F.O.B., U.S. WAREHOUSE FOR EDIBLE NONRESTRICTED AND VARY ACCORDING TO MESH SIZE AND QUALITY.

RENNET: 3.1500 - 3.2700  
ACID: 3.0800 - 3.2700

**EVAPORATED MILK - NATIONAL**

Prices and the market tone are unchanged. Production levels remain heavy as surplus milk volumes, though easing, are ample in most parts of the country. Demand is still quite slow, but this is typical for this time of year. The market continues to be highly competitive. Canned evaporated milk production during November 2005 totaled 39.2 million pounds, 13.0% less than November 2004 and 2.9% less than October 2005. Month ending stocks, at 40.5 million pounds, are 7.9% above a year ago but 40.1% less than last month.

DOLLARS PER 48 - 12 FLUID OUNCE CANS PER CASE DELIVERED MAJOR U.S. CITIES \$19.50 - 30.00  
Excluding promotional and other sales allowances. Included new price announcements.





AREA and PRODUCT	2005 MONTHLY AVERAGES												ANNUAL
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	AVERAGE*
-----													
DRY PRODUCTS													
NONFAT DRY MILK													
CENTRAL/EAST - LOW/MEDIUM HEAT	0.9208	0.9525	0.9642	0.9674	0.9758	0.9758	0.9804	1.0009	1.0151	1.0334	1.0554	1.0597	0.9918
-- MOSTLY	0.8999	0.9362	0.9521	0.9593	0.9767	0.9850	0.9888	0.9987	1.0025	1.0242	1.0470	1.0481	0.9849
CENTRAL/EAST - HIGH HEAT	0.9885	1.0128	1.0242	1.0274	1.0358	1.0358	1.0398	1.0547	1.0638	1.0785	1.0994	1.1050	1.0471
WEST - LOW/MEDIUM HEAT	0.9043	0.9343	0.9368	0.9377	0.9438	0.9410	0.9458	0.9579	0.9675	0.9803	0.9951	0.9717	0.9514
-- MOSTLY	0.8945	0.9180	0.9268	0.9385	0.9471	0.9367	0.9319	0.9486	0.9646	0.9848	1.0015	0.9899	0.9486
WEST - HIGH HEAT	0.9193	0.9476	0.9534	0.9590	0.9650	0.9612	0.9623	0.9802	0.9922	1.0078	1.0311	1.0358	0.9762
DRY BUTTERMILK													
CENTRAL	0.9203	0.9624	0.9792	1.0042	1.0040	0.9868	0.9998	0.9970	0.9975	0.9964	0.9718	0.9180	0.9781
WEST	0.9116	0.9259	0.9518	0.9510	0.9294	0.9284	0.9315	0.9367	0.9400	0.9375	0.9375	0.9330	0.9345
-- MOSTLY	0.9053	0.9172	0.9408	0.9443	0.9092	0.9023	0.9063	0.9176	0.9264	0.9200	0.9200	0.9120	0.9185
NORTHEAST	0.9298	0.9355	0.9500	0.9619	0.9643	0.9407	0.9679	0.9732	0.9775	0.9813	0.9825	0.9734	0.9615
SOUTHEAST	0.9650	0.9689	0.9750	0.9833	0.9857	0.9755	1.0185	1.0200	1.0200	1.0200	1.0200	1.0086	0.9967
WHEY POWDER													
CENTRAL -	0.2447	0.2450	0.2488	0.2575	0.2611	0.2652	0.2746	0.2858	0.2921	0.3059	0.3233	0.3336	0.2781
-- MOSTLY	0.2425	0.2425	0.2446	0.2500	0.2546	0.2635	0.2718	0.2840	0.2909	0.3000	0.3150	0.3234	0.2736
NORTHEAST - EXTRA AND GRADE A	0.2563	0.2563	0.2569	0.2636	0.2668	0.2764	0.2876	0.2939	0.3041	0.3134	0.3276	0.3395	0.2869
SOUTHEAST - EXTRA GRADE	0.2763	0.2763	0.2771	0.2836	0.2859	0.2944	0.3028	0.3166	0.3250	0.3323	0.3495	0.3595	0.3066
WEST -	0.2597	0.2645	0.2726	0.2817	0.2883	0.2977	0.3066	0.3110	0.3235	0.3202	0.3206	0.3317	0.2982
-- MOSTLY	0.2597	0.2634	0.2708	0.2791	0.2877	0.2969	0.3074	0.3107	0.3205	0.3224	0.3298	0.3403	0.2991
ANIMAL FEED													
CENTRAL - MILK REPLACER	0.2100	0.2159	0.2228	0.2306	0.2402	0.2476	0.2506	0.2570	0.2781	0.2796	0.2909	0.3110	0.2529
LACTOSE													
CENTRAL AND WEST	0.1823	0.1828	0.1841	0.1880	0.1895	0.1930	0.2003	0.2053	0.2138	0.2250	0.2250	0.2250	0.2012
-- MOSTLY	0.1750	0.1750	0.1750	0.1798	0.1809	0.1884	0.1995	0.2003	0.2043	0.2153	0.2195	0.2200	0.1944
WHEY PROTEIN CONCENTRATE													
CENTRAL AND WEST	0.7102	0.7629	0.7980	0.8373	0.8800	0.9161	0.9475	0.8984	0.8539	0.8414	0.8416	0.8291	0.8430
-- MOSTLY	0.7033	0.7509	0.7816	0.8195	0.8598	0.8907	0.9075	0.8956	0.8587	0.8523	0.8416	0.8186	0.8317
DRY WHOLE MILK													
NATIONAL	1.3456	1.3207	1.3221	1.3370	1.3353	1.3134	1.3330	1.3741	1.4038	1.4289	1.4163	1.3366	1.3556
CASEIN REVIEW													
ACID	3.1500	3.2342	3.3100	3.3338	3.3350	3.3350	3.3350	3.3350	3.3350	3.2500	3.2500	3.2500	3.2878
RENNET	3.1500	3.2211	3.2850	3.3564	3.3600	3.3600	3.3600	3.3600	3.3600	3.2750	3.2750	3.2750	3.3031

\*Annual averages are simple averages of the twelve monthly averages.

## WORLD DAIRY SITUATION AND OUTLOOK

**Summary** - The remarkable strength of the international dairy markets continues, however, there are signs that demand has eased slightly and prices are likely to moderate in the next several months. Nevertheless, supplies will likely remain tight particularly since the anticipated jump in Oceania production is not expected to materialize as a result of adverse milk producing weather in New Zealand. Consequently, although Australian milk production for the 2005/06 season is forecast to expand, this is likely to be offset by production shortfalls in New Zealand, absent a late season recovery. As a result, Oceania milk output is currently forecast to remain largely unchanged from last season. In the EU-25, milk production for 2006 is set to increase marginally, but strong internal consumption for dairy products will absorb additional production and thus exportable supplies will probably be similar to 2005. In contrast, U.S. milk production for 2006, following a year in which milk output surged by 3.5 percent, is expected to expand at a more moderate pace to 2.6 percent. While this will ensure that there are ample exportable supplies of nonfat dry milk (NDM), global markets for other dairy products are unlikely to be affected significantly since U.S. exports of cheese, butterfat, and whole milk powder are not as competitive.

From an economic perspective, import demand for 2006 should remain fairly steady as global growth in gross domestic product (GDP) is projected to exceed 3 percent annually. In the critical Asian markets, GDP is expected to exceed 6 percent in 2006 and in China, GDP growth is forecast to surpass 9 percent. In contrast, GDP growth in the EU-25 will improve modestly from around 1 percent in 2005 to a forecast 1.5 percent in 2006, while Japan's economic growth is expected to ease with GDP growth expected to drop by .5 percent to 1.5 percent in 2006. In the United States, despite concerns over the trade and budget deficits and climbing interest rates, the outlook for 2006 is fairly optimistic with GDP growth currently pegged at over 3 percent. Nevertheless, despite these relatively solid economic factors, recent trade data for the first half of 2005 suggests that in some countries there has been a significant drop in import demand for dairy products, notably milk powders in China. These declines, however, may be offset by oil producing countries that are reaping the benefits of strong petroleum prices and maintaining strong import levels.

A further complicating factor is the role of currencies. The high world prices coupled with a weak U.S. dollar have provided U.S. dairy exporters with a competitive edge while at the same time diluting export returns to competing producers. In recent months, the value of the U.S. dollar relative to the Euro has been strengthening, effectively exerting downward pressure on EU dairy export prices. Currently, the U.S. dollar is projected to continue strengthening against the Euro in 2006, undermining the competitiveness of the U.S. dairy industry.

Global dairy product prices during 2005 have remained remarkably resilient sustained by well balanced markets, a weak dollar trend, and solid world economic growth. For milk powder and cheese, the export prices at the end of 2005 are virtually unchanged from the early part of the year. Butter has been easing in the past few months, but nevertheless, remains historically strong. For 2006, the outlook is mixed. On the negative side, the high crude oil prices being experienced are likely to create economic drag in some country economies. In addition, the recent rather erratic strengthening of the dollar, if sustained, will serve to weaken prices. In principle, the U.S. Federal Reserve likely will continue to raise short-term interest rates in an effort to stem inflationary pressures, and that should lead to an appreciation of the dollar throughout 2006. There are, however, several positive factors: global GDP for 2006 is currently expected to exceed 3 percent ; the anticipated wave of Oceania dairy supplies for the current season appears less likely as New Zealand milk production falters; world dairy inventory levels remain fairly tight; and some major importing nations that are also petroleum exporters, such as Mexico, Algeria, and Russia, will benefit from high oil prices. Therefore any

price projections for 2006 will be particularly tenuous. Nevertheless, the outlook for the first half of 2006, at this time, appears to be fairly bright with the expectation that world dairy prices will weaken slightly but will still remain relatively high.

NDM prices are currently trading in the range of \$2,125-\$2,250 FOB N. Europe and may remain in that range despite downward pressure from an appreciating dollar. For the next 6 months, while NDM prices may slide due to currency movements, and assuming that current production parameters (particularly with respect to New Zealand) apply, then NDM market prices should remain historically strong as supplies remain relatively limited. The global markets for WMP have paralleled the trends in the NDM markets. Currently, prices are high in the range of \$2,200-\$2,275/MT FOB N. Europe and have only declined marginally from prices prevailing early in the year. Global cheese prices have recently declined as a result of the appreciating U.S. dollar coupled with more readily available supplies from Oceania. Import demand in major consuming countries, such as the United States, the EU-25 and Russia, is expected to remain relatively robust while Japanese purchases are forecast to decline slightly. However, the escalation in cheese prices since 2003 relative to other dairy products has been extreme – nearly 80 percent from January 2003 through Oct 2005. Consequently, it would not be surprising if in the next few months cheese export prices decline as demand in the smaller importing nations is adversely impacted. A healthy global economy will, however, help ensure that any price correction will be relatively moderate and prices will still probably remain at historically high levels. Butter prices have been sliding since August 2005 reflecting the arrival of the New Zealand milk production season and slack demand particularly in the Russian market. For 2006, ample supplies from Oceania and the EU-25 will likely place downward pressure on prices. However, import demand in Russia is expected to rebound, and purchases from some of the North African and Middle-East markets should remain fairly solid. Further, EU-25 exports of butterfat are forecast to repeat 2005 levels but rely on a sharp drawdown of stock levels to sustain exports. Consequently, although the outlook for butter markets is for a continuing decline in prices, further cuts in EU export restitutions in anticipation of lower intervention prices in July 2006 could reverse any price declines.

**SOURCE:** “Dairy: World Markets and Trade”, Circular Series, FD 2-05, December 2005, Foreign Agricultural Service, USDA. For more information contact Paul Kiendl (Analysis) at (202) 720-8870 and Marsha Sheeham (Marketing) at (202) 720-3690. This summary has been condensed from the original.

## JANUARY MILK SUPPLY AND DEMAND ESTIMATES\*

Milk supply and use forecasts for 2005 and 2006 are little changed from last month. Whey and butter price forecasts are changed fractionally from last month, but the Class III and Class IV milk price forecasts are unchanged. The all milk price forecast for 2006 is raised slightly to \$13.40-\$14.20 per cwt.

U.S. MILK SUPPLY AND USE					
Commodity	2004	2005 Estimated		2006 Projected	
		December	January	December	January
MILK		<b>BILLION POUNDS</b>			
PRODUCTION	170.8	176.7	176.6	181.3	181.3
FARM USE	1.1	1.1	1.1	1.1	1.1
FAT BASIS SUPPLY					
BEGINNING COMMERCIAL STOCKS	8.3	7.2	7.2	7.4	7.6
MARKETINGS	169.7	175.6	175.5	180.2	180.2
IMPORTS	5.3	4.8	4.7	4.9	4.8
TOTAL COMMERCIAL SUPPLY	183.3	187.5	187.3	192.6	192.6
FAT BASIS USE					
ENDING COMMERCIAL STOCKS	7.2	7.4	7.6	7.5	7.5
CCC NET REMOVALS <u>1/</u>	-0.1	0.0	0.0	0.0	0.0
COMMERCIAL USE <u>2/</u>	176.2	180.2	179.8	185.0	185.1
SKIM-SOLIDS BASIS SUPPLY					
BEGINNING COMMERCIAL STOCKS	8.5	8.2	8.2	8.1	8.5
MARKETINGS	169.7	175.6	175.5	180.2	180.2
IMPORTS	4.8	4.8	4.6	4.8	4.7
TOTAL COMMERCIAL SUPPLY	183.0	188.6	188.3	193.2	193.5
SKIM-SOLIDS BASIS USE					
ENDING COMMERCIAL STOCKS	8.2	8.1	8.5	8.3	8.3
CCC NET REMOVALS <u>1/</u>	1.3	-1.0	-1.0	0.7	0.6
COMMERCIAL USE <u>2/</u>	173.5	181.5	180.8	184.2	184.5
CCC PRODUCT NET REMOVALS <u>1/</u>		<b>MILLION POUNDS</b>			
BUTTER	-7	0	0	0	0
CHEESE	6	-2	-2	0	0
NONFAT DRY MILK	105	-80	-80	60	55
DRY WHOLE MILK	0	0	0	0	0

NOTE: Totals may not add due to rounding. 1/ Includes products exported under the Dairy Export Incentive Program. 2/ Includes commercial exports.

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## JANUARY MILK SUPPLY AND DEMAND ESTIMATES-cont'd

U.S. DAIRY PRICES					
Commodity	2004	2005 Estimated		2006 Projected	
		December	January	December	January
PRODUCT PRICES <u>1/</u> CHEESE  BUTTER  NONFAT DRY MILK  DRY WHEY   MILK PRICES <u>2/</u> CLASS III  CLASS IV  ALL MILK <u>3/</u>	DOLLARS PER POUND				
	1.6431	1.480-1.490	1.4875	1.295-1.375	1.295-1.375
	1.8239	1.525-1.555	1.5405	1.300-1.410	1.295-1.405
	0.8405	0.930-0.950	0.9409	0.890-0.950	0.890-0.950
	0.2319	0.275-0.285	0.2782	0.255-0.285	0.260-0.290
	DOLLARS PER CWT				
	15.39	14.00-14.10	14.05	12.05-12.85	12.05-12.85
	13.20	12.75-12.95	12.88	11.45-12.35	11.45-12.35
	16.05	15.10-15.20	15.14	13.35-14.15	13.40-14.20
	QUARTERLY				
2005 IV	2006 I <u>4/</u>	2006 II <u>4/</u>	2006 III <u>4/</u>	2006 IV <u>4/</u>	
MILK PRODUCTION   ALL MILK PRICE <u>2/</u> <u>3/</u> CLASS III PRICE <u>2/</u> CLASS IV PRICE <u>2/</u>	BILLION POUNDS				
	43.7	45.0	46.7	44.8	44.8
	DOLLARS PER CWT.				
	15.14	14.30-14.70	13.00-13.70	12.70-13.70	13.55-14.55
	13.69	12.70-13.10	11.90-12.60	11.75-12.75	12.00-13.00
13.03	12.15-12.65	11.60-12.40	11.05-12.15	11.10-12.20	

1/ Simple average of monthly prices calculated by AMS from NASS weekly average dairy product prices for class price computations. Details may be found at [http://www.ams.usda.gov/dyfmom/mib/fedordprc\\_dscrpt.htm](http://www.ams.usda.gov/dyfmom/mib/fedordprc_dscrpt.htm). 2/ Annual and quarterly Class III and Class IV prices are the simple average of monthly minimum Federal order milk prices paid by regulated plants for milk used in the respective classes. All milk price is the simple average of monthly prices received by farmers for milk at average test. 3/ Does not reflect any deductions from producers as authorized by legislation. 4/ Projection.

\* The World Agricultural Supply and Demand Estimates were approved by the Interagency Commodity Estimates Committee. The members for Dairy are: Shayle Shagam, Chairperson, WAOB; John Mengel, AMS; Paul Kiendl, FAS; James Miller, ERS; and Milton Madison, FSA.

**SOURCE:** "World Agricultural Supply and Demand Estimates," WASDE-430, World Agricultural Outlook Board, USDA, January 10, 2006.

**ANNOUNCED COOPERATIVE CLASS I PRICES FOR SELECTED CITIES IN FEDERAL MILK  
ORDERS, 2005 ANNUAL AVERAGES, WITH COMPARISONS 1/**

For 2005, the all-city average announced cooperative Class I price was \$18.51 per cwt., \$1.58 higher than the Federal milk order Class I price average for these cities. Although the all-city average Federal Order Class I price and the Announced Cooperative Class I prices were both lower than the 2004 average prices, the difference between the two set a new record at \$1.58 per cwt. On an individual city basis, the annual average difference between the Federal order and announced cooperative Class I price ranged from \$.15 in Pheonix, AZ to \$2.80 in Miami, FL. For 2004, the all-city average announced cooperative Class I price was \$19.01, \$1.50 higher than the Federal order Class I price average for these cities.

City	Annual Averages		
	Announced Cooperative Class I Price	Federal Milk Order Class I Price	Difference
Atlanta, GA	19.21	17.50	1.71
Baltimore, MD	19.20	17.40	1.80
Boston, MA	19.29	17.65	1.64
Charlotte, NC	19.21	17.50	1.71
Chicago, IL	18.92	16.20	2.72
Cincinnati, OH	18.39	16.60	1.79
Cleveland, OH	18.19	16.40	1.79
Dallas, TX	18.21	17.40	0.81
Denver, CO	17.80	16.95	0.85
Des Moines, IA	17.95	16.20	1.75
Detroit, MI	17.96	16.20	1.76
Hartford, CT	19.19	17.55	1.64
Houston, TX	18.81	18.00	0.81
Indianapolis, IN	18.19	16.40	1.79
Kansas City, MO	17.64	16.40	1.24
Louisville, KY	18.35	16.60	1.75
Memphis, TN	18.71	17.20	1.51
Miami, FL 2/	21.50	18.70	2.80
Milwaukee, WI	18.87	16.15	2.72
Minneapolis, MN	18.20	16.10	2.10
New Orleans, LA	19.51	18.00	1.51
Oklahoma City, OK	17.86	17.00	0.86
Omaha, NE	17.70	16.25	1.45
Philadelphia, PA	19.52	17.45	2.07
Phoenix, AZ	16.90	16.75	0.15
Pittsburgh, PA	18.52	16.50	2.02
St. Louis, MO	17.97	16.40	1.57
Seattle, WA	16.72	16.30	0.42
Springfield, MO	17.45	16.60	0.85
Washington, DC	19.20	17.40	1.80
Simple Average	18.51	16.93	1.58

1/ These figures are simple averages of monthly prices. The cooperative prices are Class I prices announced for the beginning of the month by cooperative associations in various city markets. The information relates to the major cooperative in each of the city markets and does not apply to all of the Class I sales in these city markets. These data are common market knowledge in the sense that the information represents basic Class I price announcements by the cooperative sent to all handlers who buy milk from them. The announced over-order prices include charges for various service charges applicable to milk from supply plants. In some instances, the announced over-order prices may not include all credits that may be allowed. These prices have not been verified as having been actually paid by handlers.

CCC PURCHASES OF DAIRY PRODUCTS (POUNDS)

	FOR THE WEEK OF JANUARY 9 – 13, 2006			CUMULATIVE TOTALS		UNCOMMITTED INVENTORIES	
	TOTAL PURCHASES	CONTRACT ADJUSTMENTS	ADJUSTED PURCHASES	SINCE 10/01/05	SAME PERIOD LAST YEAR	WEEK ENDING 01/06/06	SAME PERIOD LAST YEAR
BUTTER							
Bulk	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Packaged	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-	-0-
CHEESE							
Block	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Barrel	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Process	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-	-0-
NONFAT DRY MILK							
Nonfortified	-0-	-0-	-0-	-0-	31,817,269	-0-	-0-
Fortified	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	-0-	31,817,269	-0-	-0-

MILK EQUIVALENT, FAT SOLIDS BASIS, OF ADJUSTED PURCHASES (MILLION POUNDS)

	MILKFAT* BASIS	SKIM** SOLIDS		MILKFAT* BASIS	SKIM** SOLIDS
WEEK OF JANUARY 9 – 13, 2006 =	0.0	0.0	COMPARABLE PERIOD IN 2005 =	0.0	0.0
CUMULATIVE SINCE OCTOBER 1, 2005 =	0.0	0.0	CUMULATIVE SAME PERIOD LAST YEAR =	7.0	370.4
CUMULATIVE JANUARY 1 – 13, 2006 =	0.0	0.0	COMPARABLE CALENDAR YEAR 2005 =	60.2	3,233.1

\* Factors used for Fat Solids Basis - Butter times 21.80; Cheese times 9.23; and Nonfat Dry Milk times 0.22

\*\*Factors used for Skim Solids Basis - Butter times 0.12; Cheese times 9.90; and Nonfat Dry Milk times 11.64

CCC ADJUSTED PURCHASES SINCE 10/1/05 AND SAME PERIOD LAST YEAR (POUNDS) AND MILK EQUIVALENT AS A PERCENT OF TOTAL

REGION	BUTTER		CHEESE		NONFAT DRY MILK		MILK EQUIVALENT (%)	
	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
CENTRAL	-0-	-0-	-0-	-0-	-0-	1,331,567	-0-	4.2
WEST	-0-	-0-	-0-	-0-	-0-	29,415,099	-0-	92.4
EAST	-0-	-0-	-0-	-0-	-0-	1,070,603	-0-	3.4
TOTAL	-0-	-0-	-0-	-0-	-0-	31,817,269	-0-	100.0

SUPPORT PURCHASE PRICES FOR DAIRY PRODUCTS PRODUCED ON OR AFTER NOVEMBER 15, 2002

MANUFACTURING MILK Average Test 3.67% - \$9.90 per cwt.

BUTTER Bulk \$1.0500 per pound; 1# Prints \$1.0850

CHEESE 40 & 60# Blocks \$1.1314 per pound; 500# Barrels \$1.1014; Process American 5# \$1.1889; Process Am. 2# \$1.2289

NONFAT DRY MILK Nonfortified \$.8000 per pound; Fortified \$.8100; Instant \$0.9625

U.S. Dairy & Total Cow Slaughter under Federal Inspection, by Regions, for Week Ending 12/24/05 & Comparable Week 2004

Regions* (000 HEAD)	U.S. TOTAL										% DAIRY OF ALL	
	1	2	3	4	5	6	7	8	9	10	WEEK	SINCE JAN 1
2005-Dairy	N.A.	0.5	6.4	2.2	14.9	2.4	0.4	N.A.	14.0	1.8	43.8	2,258.8
2004-Dairy	N.A.	0.6	6.2	2.1	13.3	2.4	1.0	N.A.	13.2	2.1	41.8	2,347.4
2005-All cows	N.A.	0.6	7.9	9.9	29.1	14.0	11.7	N.A.	16.1	2.2	94.8	4,783.4
2004-All cows	N.A.	0.6	7.7	8.9	27.7	8.3	11.0	N.A.	14.8	4.2	86.0	5,046.4

**SOURCE:** The slaughter data are gathered and tabulated in a cooperative effort by the Agricultural Marketing Service, The Food Safety and Inspection Service, and the National Agricultural Statistics Service, all of USDA. 1/ States included in regions are as follows: Region 1--ME, NH, VT, CT, MA, and RI; Region 2--NY and NJ; Region 3--DE, PA, WV, VA, and MD; Region 4--KY, TN, NC, SC, GA, AL, MS, and FL; Region 5--MI, OH, IN, IL, WI, and MN; Region 6--TX, OK, NM, AR, and LA; Region 7--IA, NB, KS, and MO; Region 8--MT, WY, CO, UT, ND, and SD; Region 9--CA, NV, AZ, and HA; Region 10--ID, OR, and WA. 2/ Totals may not add due to rounding.

CLASS III MILK PRICES, (3.5% BF)

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2002	11.87	11.63	10.65	10.85	10.82	10.09	9.33	9.54	9.92	10.72	9.84	9.74
2003	9.78	9.66	9.11	9.41	9.71	9.75	11.78	13.80	14.30	14.39	13.47	11.87
2004	11.61	11.89	14.49	19.66	20.58	17.68	14.85	14.04	14.72	14.16	14.89	16.14

FEDERAL MILK ORDER CLASS PRICES FOR 2005 (3.5% BF)

CLASS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN 2006
I 1/	16.65	13.79	15.43	14.13	14.80	13.62	13.89	14.44	13.70	14.27	14.56	13.57	13.38
II	13.04	13.36	13.25	13.24	12.78	13.06	13.79	13.95	14.35	14.25	13.49	13.22	
III	14.14	14.70	14.08	14.61	13.77	13.92	14.35	13.60	14.30	14.35	13.35	13.37	
IV	12.52	12.74	12.66	12.61	12.20	12.33	13.17	13.44	13.75	13.61	12.90	12.57	

1/ Specific order differentials to be added to this base price are located at [www.ams.usda.gov/dyfmos/mib/cls\\_prod\\_cmp\\_pr.htm](http://www.ams.usda.gov/dyfmos/mib/cls_prod_cmp_pr.htm)